Notes to the Financial Statements

1. GENERAL INFORMATION

Minmetals Resources Limited (the "Company") is a limited liability company and was incorporated in Hong Kong on 29 July 1988. The address of its registered office is 9/F, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the trading of non-ferrous metals and the manufacturing and distribution of aluminium and copper products.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 11 April 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The adoption of new accounting standards, amendments and interpretations to existing standards:

(a) In 2006, the Company and its subsidiaries (collectively referred to as the "Group") adopted the following amendments and interpretations to existing standards that were effective in 2006 and relevant to the Group's operations.

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option;
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining Whether an Arrangement Contains a Lease

The adoption of the these amendments and interpretations to existing standards had no material impact on the Group for the year ended 31 December 2006.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(b) The following standard, amendments and interpretations to existing standards are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

(c) The following standards and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods. The Group has started considering their potential impact. Based on the preliminary assessment, the Group believes that the adoption of these standards and interpretations to existing standards, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted these standards and interpretations to existing standards, if applicable, in the financial statements for the year ended 31 December 2006.

HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IRFIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 March 2006
4 Effective for annual periods beginning on or after 1 May 2006
5 Effective for annual periods beginning on or after 1 June 2006
6 Effective for annual periods beginning on or after 1 November 2006
7 Effective for annual periods beginning on or after 1 March 2007
8 Effective for annual periods beginning on or after 1 January 2008

Certain comparative figures have been reclassified in order to have a fairer representation of the Group's activities.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interest*

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.2 Consolidation *(cont'd)*

(c) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is US dollars while the consolidated financial statements are presented in HK dollars.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.4 Foreign currency translation *(cont'd)*

(c) Group companies (cont'd)

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Buildings comprise mainly factories, offices and staff quarters. Buildings are stated at cost or their revalued amounts, being their fair values at the date of revaluation, less accumulated depreciation and accumulated impairment losses.

The Group has taken advantage of the transitional provisions set out in paragraph 80A of HKAS 16 "Property, Plant and Equipment", with the effect that certain land and buildings are stated at their revalued amounts, which were determined prior to 30 September 1995 and have not been updated to reflect their fair values at the balance sheet date.

Other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.5 Property, plant and equipment *(cont'd)*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

–	Buildings	20-50 years
–	Leasehold improvements	5 years or over the unexpired period of the leases
–	Plant and machinery	7-15 years
–	Office equipment	5-15 years
–	Furniture, fixtures and equipment	5-15 years
–	Motor vehicles	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the income statement.

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used. These valuations are performed in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors. Investment property is valued annually by external valuer.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. Changes in fair values are recognised in the income statement.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.8 Alumina purchasing rights

Alumina purchasing rights represents the rights to purchase pre-determined quantities of alumina from certain alumina suppliers over certain periods of time pursuant to the legal binding agreements entered into between certain alumina suppliers and the Group. Alumina purchasing rights are stated at cost less accumulated amortisation and any impairment losses. Alumina purchasing rights are amortised over the unexpired periods of the agreements or in accordance with the quantities of alumina delivered.

2.9 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.10 Financial assets *(cont'd)*

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, unless their maturities are greater than 12 months after the balance sheet date, in which case they are classified as non-current assets.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on the trade-date being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other gains/(losses)-net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the income statement, translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.10 Financial assets *(cont'd)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(1) hedges of the fair value of recognised liabilities (fair value hedge);

(2) hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge); or

(3) hedges of a net investment in foreign operation (net investment hedge).

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 27. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedge item is more than 12 months. Trading derivatives are classified as a current asset or liability.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.11 Derivative financial instruments and hedging activities *(cont'd)*

(a) *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance costs. The gain or loss relating to the ineffective portion is recognised in the income statement within other gains/(losses)-net. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within finance costs.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other gains/(losses)-net.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variables rate borrowings is recognised in the income statement within finance costs. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within sales. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.11 Derivative financial instruments and hedging activities *(cont'd)*

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of or sold.

(d) Derivatives that do not qualify for hedge accounting

Certain derivatives instruments do not qualify for hedge accounting are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains/(losses)-net.

2.12 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

2.13 Inventories

Inventories comprise goods-in-transit, commodities purchased for re-sale, raw materials, work in progress and finished goods. Inventories are stated at the lower of cost and net realisable value.

Cost of commodities purchased for re-sale, mainly comprising purchase costs and custom duty, is determined using the first-in, first-out basis. The cost of work in progress and finished goods, comprising raw materials, direct labour, other direct costs and an appropriate proportion of all production overheads, are calculated on the weighted average basis. Borrowing costs are excluded. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to the purchase costs.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are recognised in the income statement on a straight-line basis over the expected lives of the related assets.

2.18 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.18 Provisions and contingent liabilities *(cont'd)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.20 Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the derivative component is determined using an option-pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. In subsequent periods, the derivative component is measured at fair value with gains and losses recognised in the income statement until extinguished on conversion or redemption.

2.21 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.21 Deferred income tax *(cont'd)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.22 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) *Servicing income*

Commission and logistics agency income is recognised when the related services are rendered.

(c) *Interest income*

Interest income is recognised on a time proportion basis, using the effective interest method.

(d) *Rental income*

Operating lease rental income is recognised on a straight-line basis over the lease periods.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.24 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Retirement benefits

Arrangements for staff retirement benefits are made in accordance with local regulations and customs.

The Group's employees in Mainland China are covered by various government-sponsored pension plans. These government agencies are responsible for the pension liabilities to these employees. The relevant group companies pay monthly contributions to these pension plans based on certain percentages of the salaries, subject to a certain ceiling. Under these plans, the Group has no legal or constructive obligation to make further payments once the required contributions have been paid. Contributions to these plans are expensed as incurred.

The Group's employees in Mainland China are also entitled to participate in various government-sponsored medical insurance plan and housing funds. The relevant Group companies pay monthly contributions to these funds based on certain percentages of the salaries. The Group's liability in respect of these funds is limited to the contributions paid. Contributions to these plans are expensed as incurred.

The Group's Hong Kong and overseas employees are entitled to participate in a number of defined contribution pension schemes, the assets of which are generally held in separate trustee-administered funds. The pension schemes are generally funded by payments from employees and by the relevant group companies.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.24 Employee benefits *(cont'd)*

(c) Share-based compensation (cont'd)

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.25 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group is exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to reduce certain risk exposures.

Risk management is carried out by the Group's risk management department under policies approved by the Board of Directors. The risk management department identifies, evaluates and monitors financial risks in close co-operation with the operating units to ensure derivative financial instruments are employed solely for hedging purposes. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments (annual plan) and cash management.

(a) Foreign exchange risk

The Group's major businesses are conducted in United States dollar ("USD"), Renminbi ("RMB"), Australian dollar ("AUD") and Hong Kong dollar ("HKD"). Given the exchange rate peg between HKD and USD, it is not foreseen that the Group will be exposed to significant exchange rate risk for the transactions conducted in USD or HKD. As substantial part of the Group's businesses and net assets were conducted or denominated in RMB. Fluctuation of the exchange rate of RMB against USD or HKD could affect the Group's results of operation. The exchange rate fluctuation between AUD and USD or HKD will affect the purchase cost of alumina under a long-term purchase contract with a quantity of approximately 400,000 tonnes per annum until June 2027. The Group aims to reduce this AUD exchange exposure by using foreign exchange forward contracts.

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(b) Cash flow and fair value interest rate risk

The Group's interest-rate risk mainly arises from bank borrowings. Floating rate bank borrowings expose the Group to cash flow interest rate risk. To stabilise its interest expense against interest rate movements, the Group had arranged interest rate swaps to hedge against the risk.

(c) Commodity price risk

The price of alumina in the People's Republic of China (the "PRC") domestic market fluctuates primarily on account of changes in the supply of, and demand for, alumina and aluminium in the domestic and international markets and on account of changes in the shipping costs to the PRC. In addition, due to the broad applications of aluminium, aluminium demand has generally been linked to the fluctuations in domestic and international economic conditions. Each of these factors may change beyond the Group's control.

To monitor the adverse impact that the volatility in alumina and aluminium prices could have on the Group's businesses, the Group enters into aluminium forward contracts with certain financial institutions. The Group does not and is prohibited (pursuant to its internal hedging policies and guidelines) to enter into aluminium forward contracts for speculative purposes.

(d) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods are made to customers with an appropriate credit history. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

(e) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet the working capital requirements of its trading, manufacturing and other business operations. Excess cash is generally invested in term deposits with original maturities of less than three months.

3.2 Fair value estimation

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining derivative financial instruments.

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT *(cont'd)*

3.2 Fair value estimation *(cont'd)*

The fair values of foreign exchange forward contracts, interest rate swaps and aluminium forward contracts are calculated by reference to current contracts with similar maturity profiles.

The carrying amounts of the Group's financial assets including trade and bills receivable, prepayments, deposits and other receivables, amounts due from fellow subsidiaries and an intermediate holding company, pledged bank deposits, cash and cash equivalents and financial liabilities including trade and bills payable, accruals, receipts in advance and other payables, amounts due to ultimate holding company, an intermediate holding company, fellow subsidiaries and associates, short-term borrowings, are assumed to approximate their fair values due to their short maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated provision for impairment of alumina purchasing rights

The discounted cash flow technique is adopted to estimate the value of the alumina purchasing rights. Forecasted projections used in the discounted cash flow models are subject to numerous assumptions, risks and uncertainties which include, but are not limited to, determining the appropriate discount rates, forecasting future alumina prices and sourcing costs as well as assessing the economic outlook and environment in general and for the industry. Any changes in these assumptions and estimates can affect the result of the assessment.

(b) Estimated useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to competition within the industry. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Notes to the Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(cont'd)*

(c) Derivative component of convertible bonds

The fair value of the derivative component of convertible bonds is estimated by using the binomial model, which is subject to certain fundamental limitations because of the subjective nature of and uncertainty relating to the assumptions and inputs to the model as well as certain inherent limitations of the model itself. Any changes in these assumptions or inputs may materially affect the fair value estimation.

(d) Estimated provision for impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the collectibility of trade and other receivables. Provisions for impairment are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amount of receivables and doubtful debt expenses in the period in which such estimate is changed.

(e) Income tax expense

The Group is subject to income tax in a number of jurisdictions. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

(f) Employee benefits – share-based payments

The valuation of the fair value of the share options at the grant date requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of the share options that are expected to vest. Where the number of options that are expected to vest is different, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

(g) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at each balance sheet date.

Notes to the Financial Statements

5. SEGMENT INFORMATION

The Group is principally engaged in the trading of alumina and other non-ferrous metals, production and sales of aluminium foils and extrusions and copper products, and the provision of port logistics services. Revenues recognised during the year are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Turnover		
Sales of goods, net of value-added tax, returns and discounts	**12,827,977**	3,330,932
Servicing income	**1,303**	1,833
	12,829,280	3,332,765

(a) Primary reporting format – Business segments

At 31 December 2006, the Group's operations comprised the following main business segments:

Trading	:	Trading of alumina and other non-ferrous metals
Aluminium fabrication	:	Production and sale of aluminium foils and extrusions
Copper fabrication and plica tubes production	:	Production and sale of copper rods and plica tubes
Port logistics services and other industrial operations	:	(i) Port logistics services include customs clearance, unloading and packing alumina, and receiving and delivering of alumina at the port of Lianyunggang in the PRC. (ii) Other industrial operations include production and sale of aluminium cans, copper cathodes and copper blister.

Notes to the Financial Statements

5. SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – Business segments *(cont'd)*

	Trading		Aluminium fabrication		Copper fabrication and plica tubes production		Port logistics services and other industrial operations		Corporate and others		Inter-segment elimination		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover														
Sales of alumina and other non-ferrous metals	**9,286,422**	2,086,494	**-**	-	**-**	-	**-**	-	**-**	-	**(208,405)**	(35,683)	**9,078,017**	2,050,811
Manufacturing of aluminium foils and extrusions	**-**	-	**1,519,701**	1,252,890	**-**	-	**-**	-	**-**	-	**(3,148)**	(2,982)	**1,516,553**	1,249,908
Manufacturing of copper rods and plica tubes	**-**	-	**-**	-	**2,233,407**	30,213	**-**	-	**-**	-	**-**	-	**2,233,407**	30,213
Logistics agency fees	**-**	-	**-**	-	**-**	-	**6,479**	3,322	**-**	-	**(5,176)**	(1,489)	**1,303**	1,833
	9,286,422	2,086,494	**1,519,701**	1,252,890	**2,233,407**	30,213	**6,479**	3,322	**-**	-	**(216,729)**	(40,154)	**12,829,280**	3,332,765
Results														
Segment results	**489,073**	39,490	**51,325**	37,793	**28,952**	13,050	**3,494**	765	**(38,015)**	125,819	**(7)**	8	**534,822**	216,925
Finance costs – net													**(29,150)**	(14,358)
Share of profits less losses of associates	**-**	-	**-**	-	**8,636**	13,791	**21,234**	11,255	**-**	-	**-**	-	**29,870**	25,046
Income tax credit/(expense)													**343,066**	(24,532)
Profit for the year													**878,608**	203,081
Minority interest													**(13,288)**	(21,335)
Profit attributable to equity holders of the Company													**865,320**	181,746

Notes to the Financial Statements

5. SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – Business segments *(cont'd)*

	Trading		Aluminium fabrication		Copper fabrication and plica tubes production		Port logistics services and other industrial operations		Corporate and others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**4,318,772**	5,478,410	**1,306,389**	1,216,734	**716,671**	32,957	**12,635**	8,059	**1,251,549**	365,721	**7,606,016**	7,101,881
Interests in associates	**–**	–	**–**	143	**–**	55,599	**40,088**	21,577	**7,797**	7,797	**47,885**	85,116
Available-for-sale financial assets											**450,933**	313,663
Deferred income tax assets											**19,915**	23,849
Total assets											**8,124,749**	7,524,509
Segment liabilities	**1,074,397**	2,668,825	**778,884**	790,664	**596,490**	19,836	**4,929**	1,917	**995,162**	7,049	**3,449,862**	3,488,291
Income tax liabilities											**65,728**	63,738
Deferred income tax liabilities											**163,572**	688,438
Total liabilities											**3,679,162**	4,240,467
Capital expenditures	**1,217**	69	**27,135**	49,499	**725**	8	**93**	12	**488**	1,107	**29,658**	50,695
Depreciation of property, plant and equipment	**345**	204	**53,747**	42,453	**3,615**	317	**63**	31	**678**	434	**58,448**	43,439
Amortisation												
– Land use rights	**–**	–	**1,503**	1,150	**207**	–	**6**	–	**–**	–	**1,716**	1,150
– Alumina purchasing rights	**394,699**	208,339	**–**	–	**–**	–	**–**	–	**–**	–	**394,699**	208,339
Other major non-cash expenses/(income)												
– Provision for impairment in alumina purchasing rights	**877,613**	–	**–**	–	**–**	–	**–**	–	**–**	–	**877,613**	–
– Provision for/(Write-back of) inventory impairment	**75,088**	–	**54**	–	**(23)**	–	**–**	–	**–**	572	**75,119**	572
– Write-back of provision for sales contract obligations	**(288,395)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(288,395)**	–
– Realisation of provision for sales contract obligations	**(770,263)**	(277,482)	**–**	–	**–**	–	**–**	–	**–**	–	**(770,263)**	(277,482)

Notes to the Financial Statements

5. SEGMENT INFORMATION *(cont'd)*

(b) Secondary reporting format – Geographical segments

The Group's activities are conducted predominately in mainland China, Australia and Hong Kong, with the remaining portion of its turnover derived from other countries.

	Mainland China		Australia		Hong Kong		Others		Inter-segment elimination		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**12,541,206**	3,004,071	**11,969**	9,662	**10,546**	8,180	**1,475,778**	496,236	**(1,210,219)**	(185,384)	**12,829,280**	3,332,765
Contribution to gross profit	**1,350,043**	256,266	**872**	1,767	**615**	1,024	**97,408**	49,585	**(10,081)**	(4,538)	**1,438,857**	304,104
Capital expenditures	**27,996**	49,555	**1,174**	33	**488**	1,107	**-**	–	**-**	–	**29,658**	50,695
Segment assets	**3,150,814**	2,790,505	**2,773,746**	3,769,643	**1,492,495**	392,182	**188,961**	149,551	**-**	–	**7,606,016**	7,101,881

Segment assets consist primarily of property, plant and equipment, alumina purchasing rights, inventories, trade and bills receivable, prepayments, deposits and other receivables, and cash and cash equivalents. Unallocated assets comprise available-for-sale financial assets and deferred income tax assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise income tax liabilities and deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, land use rights and construction in progress.

Notes to the Financial Statements

6. OTHER INCOME AND OTHER LOSSES – NET

(a) Other income – net

	2006 HK$'000	2005 HK$'000
Reversal of provision for impairment of receivables	**10,115**	75,093
– Trade and other receivables	**6,223**	59,814
– Amounts due from associates	**3,892**	15,279
Compensation received from customer for cancellation of contract	**5,943**	–
Sales of by-products and other services income	**5,250**	1,946
Amortisation of deferred income *(Note 31)*	**2,315**	1,691
Government grant income	**873**	866
Rental income from investment properties	**268**	565
Reversal of provision for impairment loss of property, plant and equipment and construction in progress	**209**	2,407
Reversal of provision for a guarantee given to a third party	**–**	6,857
Write-back of trade payables and accruals	**–**	5,831
Others	**1,946**	3,516
	26,919	98,772

(b) Other losses – net

	2006 HK$'000	2005 HK$'000
(Loss)/Gain on derivative financial instruments	**(135,530)**	(133,726)
– Aluminium forward contracts	**(153,568)**	(126,521)
– Aluminium options	**10,613**	(7,210)
– Copper futures contracts	**4,840**	–
– Foreign exchange forward contracts	**2,585**	(1,787)
– Interest rate swaps	**–**	1,792
Gain on disposal of available-for-sale financial assets	**31,956**	–
Exchange gains – net	**11,425**	1,003
Gain on disposal of property, plant and equipment	**146**	36
Fair value gain/(loss) on investment properties	**60**	(556)
Loss on disposal of investment properties	**(456)**	–
	(92,399)	(133,243)

Notes to the Financial Statements

7. OPERATING PROFIT

Operating profit is determined after charging/(crediting) the following:

	2006	2005
	HK$'000	*HK$'000*
Auditors' remuneration	**2,382**	1,800
Depreciation	**58,448**	43,439
Amortisation		
– Land use rights	**1,716**	1,150
– Alumina purchasing rights	**394,699**	208,339
Provision for inventory impairment	**75,119**	572
Realisation of provision for sales contract obligations	**(770,263)**	(277,482)
Employee benefit expenses (including directors' emoluments and share-based payments in relation to the share options granted during the year) *(Note 13)*	**109,322**	75,617
Operating lease rentals on properties	**4,123**	2,550

8. FINANCE COSTS – NET

	2006	2005
	HK$'000	*HK$'000*
Finance costs		
– Interest on bank loans wholly repayable within five years	**(92,619)**	(26,555)
– Interest on convertible bonds wholly repayable within five years	**(4,034)**	–
– Gain on interest rate swaps	**22,961**	–
	(73,692)	(26,555)
Finance income		
– Interest income on short-term bank deposits	**44,542**	12,197
Finance costs – net	**(29,150)**	(14,358)

Notes to the Financial Statements

9. INCOME TAX CREDIT/(EXPENSE)

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit generated in Hong Kong for the year (2005: Nil). Taxation on profits arising from other jurisdictions has been calculated on the estimated assessable profits for the year at the rates prevailing in the relevant jurisdictions.

	2006	2005
	HK$'000	*HK$'000*
Current income tax credit/(expense)		
Hong Kong profits tax	**512**	–
PRC enterprise income tax	**(177,212)**	(24,398)
Overseas income tax	**(3,961)**	(1,241)
	(180,661)	(25,639)
Deferred income tax credit *(Note 24)*	**523,727**	1,107
Income tax credit/(expense)	**343,066**	(24,532)

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate to profits of the consolidated companies as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before income tax	**535,542**	227,613
Calculated at a taxation rate of 33% (2005: 33%)	**(176,729)**	(75,112)
Effect of different taxation rates in other countries	**7,536**	23,332
Effect of tax exemption	**687**	946
Income not subject to taxation	**114,552**	56,328
Effect of changes in value of alumina purchasing rights	**449,404**	–
Expenses not deductible for taxation purposes	**(49,778)**	(30,788)
Utilisation of unrecognised tax losses	**466**	3,630
Unrecognised tax losses	**(4,235)**	(2,868)
Overprovision in prior years	**1,163**	–
Income tax credit/(expense)	**343,066**	(24,532)

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$29,169,000 (2005: HK$126,999,000).

Notes to the Financial Statements

11. EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK$865,320,000 (2005: HK$181,746,000) and the weighted average number of 1,714,440,521 ordinary shares (2005: 871,231,555 ordinary shares) in issue during the year.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding with assumed conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006 *HK$'000*	2005 *HK$'000*
Profit attributable to equity holders of the Company	**865,320**	181,746
Add: Interest expense on convertible bonds	**4,034**	–
Profit used to determine diluted earnings per share	**869,354**	181,746
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**1,714,440,521**	871,231,555
Adjustments for assumed conversion of convertible bonds	**23,416,462**	–
Weighted average number of ordinary shares for diluted earnings per share	**1,737,856,983**	871,231,555
Diluted earnings per share	**HK$0.500**	HK$0.209

The effect of share options was anti-dilative as the exercise price of the Company's share options was higher than the average market price of the Company's shares for 2006 and 2005.

Notes to the Financial Statements

12. DIVIDENDS

No interim dividend was paid and the directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

13. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	**75,385**	63,708
Share-based payments in relation to the share options granted to directors and employees	**21,662**	–
Retirement scheme contributions *(Note 36)*	**10,817**	11,901
Social security costs	**1,458**	8
	109,322	75,617

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The remuneration of every director for the year ended 31 December 2006 is set out below:

Name of Director	**Fees**	**Basic salary and other benefits in kind (Note (i))**	**Discretionary bonuses**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Mr. ZHOU Zhongshu	**–**	**–**	**–**	**–**
Dr. ZHU Guang *(a)*	**49**	**–**	**–**	**49**
Mr. XU Huizhong	**–**	**2,479**	**470**	**2,949**
Mr. WANG Lixin	**–**	**1,892**	**807**	**2,699**
Mr. REN Suotang *(b)*	**–**	**417**	**–**	**417**
Ms. SHEN Ling	**100**	**–**	**–**	**100**
Mr. LI Linhu	**100**	**–**	**–**	**100**
Mr. ZONG Qingsheng	**100**	**–**	**–**	**100**
Mr. ZHANG Shoulian	**100**	**–**	**–**	**100**
Mr. LIU Hongru	**200**	**–**	**–**	**200**
Mr. CHAN Wai Dune	**210**	**–**	**–**	**210**
Mr. TING Leung Huel, Stephen	**200**	**–**	**–**	**200**
	1,059	**4,788**	**1,277**	**7,124**

Notes to the Financial Statements

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(cont'd)*

The remuneration of every director for the year ended 31 December 2005 is set out below:

Name of Director	Fees *HK$'000*	Basic salary and other benefits in kind *(Note (i))* *HK$'000*	Discretionary bonuses *HK$'000*	Total *HK$'000*
Mr. ZHOU Zhongshu *(c)*	–	–	–	–
Dr. ZHU Guang *(c)*	31	–	–	31
Mr. XU Huizhong	–	1,935	210	2,145
Mr. WANG Lixin *(c)*	–	184	–	184
Ms. SHEN Ling *(c)*	24	–	–	24
Mr. LI Linhu *(c)*	24	–	–	24
Mr. ZONG Qingsheng *(c)*	24	–	–	24
Mr. ZHANG Shoulian *(c)*	24	–	–	24
Mr. LIU Hongru	200	–	–	200
Mr. CHAN Wai Dune	210	–	–	210
Mr. TING Leung Huel, Stephen	200	–	–	200
Mr. LIN Xizhong *(d)*	–	–	–	–
Mr. QIAN Wenchao *(d)*	–	–	–	–
Mr. TANG Xiaojin *(d)*	–	560	–	560
	737	2,679	210	3,626

(a) Resigned on 15 May 2006.

(b) Appointed on 18 September 2006.

(c) Appointed on 6 October 2005.

(d) Resigned on 6 October 2005.

Note:

(i) Other benefits in kind include housing allowances and leave pay.

During the year ended 31 December 2006, 13,600,000 (2005: nil) share options were granted to the directors of the Company in respect of their services provided to the Group. Further details of which are set out in Note 37 to these financial statements. Share-based payments in respect of the above share options granted have not been included in the above directors' emoluments disclosure.

No director waived any emoluments in 2006. Mr. ZHOU Zhongshu waived director's fee of HK$36,000 in 2005. No emoluments were paid or payable by the Group to any director as an inducement to join or as compensation for loss of office.

Notes to the Financial Statements

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(cont'd)*

Five highest-paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2005: two) executive directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals (not including the share-based payments in respect of the share options, if any, granted to them during the year) are as follows:

	2006 **HK$'000**	2005 HK$'000
Basic salaries, bonuses and other benefits in kind	**4,824**	2,380
Retirement scheme contributions	**–**	53
	4,824	2,433

The emoluments (not including the share-based payments in respect of the share options, if any, granted during the year) fell within the following bands:

	Number of individuals	
	2006	2005
Nil – HK$1,000,000	**–**	3
HK$1,000,001 – HK$1,500,000	**2**	–
HK$2,000,001 – HK$2,500,000	**1**	–
	3	3

During the year, no emoluments were paid or payable by the Group to the five highest-paid individuals as an inducement to join or as compensation for loss of office.

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Office equipment *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2005							
Cost or valuation	139,899	1,096	512,243	6,403	15,180	17,382	692,203
Accumulated depreciation and impairment	(48,685)	(920)	(322,450)	(3,781)	(11,141)	(12,995)	(399,972)
Net book amount	91,214	176	189,793	2,622	4,039	4,387	292,231
Year ended 31 December 2005							
Opening net book amount	91,214	176	189,793	2,622	4,039	4,387	292,231
Exchange differences	1,683	–	3,320	39	65	79	5,186
Acquisition of subsidiaries *(Note 38)*	–	51	–	959	–	309	1,319
Reclassification *(Note 16)*	(796)	–	9	–	(9)	–	(796)
Additions	–	28	601	391	105	1,533	2,658
Transfer from construction in progress *(Note 18)*	25,331	–	219,523	–	–	642	245,496
Disposals	(82)	–	(741)	(7)	(25)	(17)	(872)
Depreciation	(5,196)	(72)	(35,164)	(785)	(814)	(1,408)	(43,439)
Reversal of provision for impairment loss	14	–	1,090	913	–	390	2,407
Closing net book amount	112,168	183	378,431	4,132	3,361	5,915	504,190
At 31 December 2005							
Cost or valuation	162,776	1,191	718,706	9,399	14,825	20,147	927,044
Accumulated depreciation and impairment	(50,608)	(1,008)	(340,275)	(5,267)	(11,464)	(14,232)	(422,854)
Net book amount	112,168	183	378,431	4,132	3,361	5,915	504,190

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(a) The Group *(cont'd)*

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Office equipment *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Year ended 31 December 2006							
Opening net book amount	112,168	183	378,431	4,132	3,361	5,915	504,190
Exchange differences	4,729	2	15,482	248	108	230	20,799
Proportionate consolidation of a jointly controlled entity	10,925	–	30,975	105	–	259	42,264
Reclassification	288	–	(312)	295	5	(276)	–
Additions	–	13	212	537	367	2,235	3,364
Transfer from construction in progress *(Note 18)*	1,146	–	24,231	1,801	–	–	27,178
Disposals	(15)	–	(296)	(23)	(48)	(73)	(455)
Depreciation	(6,378)	(74)	(48,300)	(1,034)	(874)	(1,788)	(58,448)
Closing net book amount	122,863	124	400,423	6,061	2,919	6,502	538,892
At 31 December 2006							
Cost or valuation	187,892	1,208	825,152	14,807	15,268	21,675	1,066,002
Accumulated depreciation and impairment	(65,029)	(1,084)	(424,729)	(8,746)	(12,349)	(15,173)	(527,110)
Net book amount	122,863	124	400,423	6,061	2,919	6,502	538,892

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(a) The Group *(cont'd)*

The analysis of the cost or valuation at 31 December 2006 of the above assets is as follows:

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	**187,451**	**1,208**	**825,152**	**14,807**	**15,268**	**21,675**	**1,065,561**
At valuation – 1994	**441**	**–**	**–**	**–**	**–**	**–**	**441**
	187,892	**1,208**	**825,152**	**14,807**	**15,268**	**21,675**	**1,066,002**

The analysis of the cost or valuation at 31 December 2005 of the above assets is as follows:

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	162,335	1,191	718,706	9,399	14,825	20,147	926,603
At valuation – 1994	441	–	–	–	–	–	441
	162,776	1,191	718,706	9,399	14,825	20,147	927,044

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(b) The Company

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005					
Cost or valuation	5,292	1,096	879	1,440	8,707
Accumulated depreciation and impairment	(4,198)	(920)	(566)	(1,440)	(7,124)
Net book amount	1,094	176	313	–	1,583
At 1 January 2005					
Opening net book amount	1,094	176	313	–	1,583
Reclassification *(Note 16)*	(796)	–	–	–	(796)
Additions	–	28	89	990	1,107
Depreciation	(9)	(66)	(161)	(198)	(434)
Closing net book amount	289	138	241	792	1,460
At 31 December 2005					
Cost or valuation	441	1,124	968	2,430	4,963
Accumulated depreciation and impairment	(152)	(986)	(727)	(1,638)	(3,503)
Net book amount	289	138	241	792	1,460
At 1 January 2006					
Opening net book amount	**289**	**138**	**241**	**792**	**1,460**
Additions	**–**	**–**	**54**	**434**	**488**
Disposals	**–**	**–**	**(1)**	**–**	**(1)**
Depreciation	**(9)**	**(62)**	**(160)**	**(447)**	**(678)**
Closing net book amount	**280**	**76**	**134**	**779**	**1,269**
At 31 December 2006					
Cost or valuation	**441**	**1,124**	**951**	**2,579**	**5,095**
Accumulated depreciation and impairment	**(161)**	**(1,048)**	**(817)**	**(1,800)**	**(3,826)**
Net book amount	**280**	**76**	**134**	**779**	**1,269**

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(b) The Company *(cont'd)*

The analysis of the cost or valuation at 31 December 2006 of the above assets is as follows:

	Buildings *HK$'000*	**Leasehold improvements** *HK$'000*	**Furniture, fixtures and equipment** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
At cost	**–**	**1,124**	**951**	**2,579**	**4,654**
At valuation – 1994	**441**	**–**	**–**	**–**	**441**
	441	**1,124**	**951**	**2,579**	**5,095**

The analysis of the cost or valuation at 31 December 2005 of the above assets is as follows:

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At cost	–	1,124	968	2,430	4,522
At valuation – 1994	441	–	–	–	441
	441	1,124	968	2,430	4,963

(c) Certain buildings were revalued at 30 September 1994 on an open market value basis by C.Y. Leung & Company Limited, an independent firm of registered professional surveyors and valuers. The Group has taken advantage of the transitional provisions set out in paragraph 80A of HKAS 16, "Property, Plant and Equipment", with the effect that such buildings are stated at their revalued amounts, which were determined prior to 30 September 1995 and have not been updated to reflect their fair values at the balance sheet date.

If such buildings were stated on the historical cost basis, the amounts would be as follows:

	The Group		**The Company**	
	2006 *HK$'000*	2005 *HK$'000*	**2006** *HK$'000*	2005 *HK$'000*
Cost	**76**	76	**76**	76
Accumulated depreciation	**(18)**	(18)	**(18)**	(18)
	58	58	**58**	58

(d) Certain banking facilities of the Group are secured by the Group's property, plant and equipment with a total carrying amount of approximately HK$356 million (2005: HK$388 million).

Notes to the Financial Statements

16. INVESTMENT PROPERTIES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**14,730**	7,090	**13,630**	5,990
Reclassification *(Note 15)*	**–**	796	**–**	796
Properties received as settlement of receivables	**–**	7,400	**–**	7,400
Disposals	**(5,200)**	–	**(5,200)**	–
Fair value gains/(losses)	**60**	(556)	**30**	(556)
At 31 December	**9,590**	14,730	**8,460**	13,630

A revaluation of investment properties was performed by CB Richard Ellis Limited, an independent firm of registered professional surveyors and valuers, on 31 October 2006. The valuation was performed in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors.

The Group's interests in investment properties at their net book values are analysed as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
In the PRC, held on:				
Leases of between 10 to 50 years	**7,390**	7,230	**6,260**	6,130
In Macau, held on:				
Freehold	**–**	5,200	**–**	5,200
Leases of between 10 to 50 years	**2,200**	2,300	**2,200**	2,300
	9,590	14,730	**8,460**	13,630

Notes to the Financial Statements

17. LAND USE RIGHTS – THE GROUP

The Group's interests in land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	2006 *HK$'000*	2005 *HK$'000*
In the PRC, held on:		
Leases of between 10 to 50 years	**16,053**	11,992
At 1 January	**11,992**	8,943
Exchange difference	**622**	161
Proportionate consolidation of a jointly controlled entity	**4,811**	–
Additions	**344**	4,038
Amortisation of prepaid operating lease payments	**(1,716)**	(1,150)
At 31 December	**16,053**	11,992

Certain banking facilities of the Group are secured by the Group's land use rights with a total carrying amount of approximately HK$11,471,000 (2005: HK$11,992,000).

18. CONSTRUCTION IN PROGRESS – THE GROUP

	2006 *HK$'000*	2005 *HK$'000*
At 1 January	**5,415**	203,008
Exchange difference	**179**	3,904
Proportionate consolidation of a jointly controlled entity	**1**	–
Additions	**25,950**	43,999
Transfer to property, plant and equipment *(Note 15)*	**(27,178)**	(245,496)
Reversal of provision for impairment loss	**209**	–
At 31 December	**4,576**	5,415

Notes to the Financial Statements

19. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Investments in subsidiaries		
Unlisted shares/investments at costs	**2,179,317**	2,179,317
Less: Provision for impairment in value	**(13,403)**	(15,283)
	2,165,914	2,164,034
Amounts due from subsidiaries *(Note (i))*	**1,269,140**	1,259,108
Less: Provision for impairment	**(837,406)**	(894,199)
	431,734	364,909
	2,597,648	2,528,943
Loans to subsidiaries *(Note (ii))*	**111,899**	29,350
Amounts due to subsidiaries *(Note (iii))*	**(1,032,454)**	(51,897)

Note:

(i) The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

(ii) Except for an amount of HK$50,907,000 (2005: HK$29,350,000) which bears interest at prevailing market interest rate, all the loans to subsidiaries are unsecured, interest free and have repayment terms of less than one year. The directors consider the carrying amounts of the loans to subsidiaries approximate their fair values.

(iii) The amounts due to subsidiaries are unsecured, interest-free and repayable on demand. The directors consider the carrying amounts of the amounts due to subsidiaries approximate their fair values.

Notes to the Financial Statements

19. INTERESTS IN SUBSIDIARIES *(cont'd)*

The following is a list of the principal subsidiaries as at 31 December 2006:

Name of company	Place of incorporation/ operation	Principal activities	Particular of issued or paid up capital	Proportion of issued capital held by the Company Directly	Proportion of issued capital held by the Company Indirectly
Oriental Copper Company Limited	Hong Kong	Non-ferrous metals trading	28,800 shares of HK$100 each[1]	100%	–
Orienmet Aluminium Company Limited	Hong Kong	Non-ferrous metals trading	28,800 shares of HK$100 each[1]	100%	–
Orienmet Industry Company Limited	Hong Kong	Investment holding	5,000,000 shares of HK$1 each[1]	100%	–
Taiway Enterprises Limited	Hong Kong	Property holding	2 shares of HK$1 each[1]	100%	–
First Harvest Limited	British Virgin Islands	Issuance of convertible bonds	1 share of US$1 each[1]	100%	–
Peak Strategic Industries Limited	British Virgin Islands	Investment holding	2 shares of US$1 each[1]	100%	–
Minmetals Aluminium Company Limited[2]	PRC	Trading of alumina and other aluminium products	RMB1,060,000,000	–	100%
Minmetals Non-ferrous Lianyungang Company Limited[3]	PRC	Provision of logistics services	RMB1,000,000	–	100%
North China Aluminium Company Limited[4]	PRC	Production and sale of aluminium foils and extrusions	RMB344,800,000	–	51%
Yingkou Orienmet Plica Tube Company Limited[4]	PRC	Production and sale of copper plica tubes	US$4,000,000	–	51%
Sino Mining International Limited	Cayman Islands/ Australia	Investment holding	115,000,000 shares of US$1 each[1]	–	100%

Notes to the Financial Statements

19. INTERESTS IN SUBSIDIARIES *(cont'd)*

Name of company	Place of incorporation/ operation	Principal activities	Particular of issued or paid up capital	Proportion of issued capital held by the Company Directly	Indirectly
Sino Mining Alumina Limited	Cayman Islands/ Australia	Purchase and supply of alumina	85,000,000 shares of US$1 each[1]	–	100%
Sino Mining Trading Pty Ltd	Australia	Provide logistics services for import and export activities	2,000,000 shares of A$0.5 each[1]	–	100%
Sino Mining Australia Pty Ltd	Australia	Provide management and administrative services to other group companies	100 share of A$1 each[1]	–	100%

Note:

1 The class of shares held is ordinary.

2 Wholly foreign-owned enterprise registered under the laws of the PRC. Statutory accounts of which are not audited by PricewaterhouseCoopers.

3 Wholly sino-owned enterprise registered under the laws of the PRC. Statutory accounts of which are not audited by PricewaterhouseCoopers.

4 Sino-foreign equity joint venture registered under the laws of the PRC. Statutory accounts of which are not audited by PricewaterhouseCoopers.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY – THE GROUP

On 24 March 2006, the Group acquired an additional 11% equity interest in Changzhou Jinyuan Copper Company Limited ("Changzhou Jinyuan"), an associate owned as to 25% previously by the Group. The purchase consideration was HK$18,721,000 and was settled by cash. A negative goodwill of approximately HK$8,066,000 was recognised during the year as follows:

	HK$'000
Purchase consideration	18,721
Less: Fair value of the 11% interest acquired	(26,787)
Negative goodwill recognised in income statement	(8,066)

Because of the changes in shareholding and composition of the board of directors, Changzhou Jinyuan has been accounted for as a jointly controlled entity of the Group. The Group has adopted proportionate consolidation method to account for its interest in Changzhou Jinyuan since the effective date of these changes.

Notes to the Financial Statements

20. INTEREST IN A JOINTLY CONTROLLED ENTITY – THE GROUP *(cont'd)*

Changzhou Jinyuan is engaged in the production and sales of copper rods. As at 31 December 2006, the Group had a 36% interest in this jointly controlled entity. The following amounts represent the Group's 36% share of the assets and liabilities, sales and results of Changzhou Jinyuan. They are included in the Group's consolidated balance sheet and income statement:

	HK$'000
Share of assets and liabilities at 31 December 2006	
Non-current assets	**45,115**
Current assets	**392,664**
Total assets	**437,779**
Non-current liabilities	**(3,967)**
Current liabilities	**(334,769)**
Total liabilities	**(338,736)**
Net assets	**99,043**
Share of results for the year ended 31 December 2006	
Turnover	**2,201,480**
Profit after income tax	**7,590**

The Group has provided a corporate guarantee of RMB36,000,000 (equivalent to approximately HK$36,000,000) in respect of a banking facility granted to Changzhou Jinyuan. Changzhou Jinyuan itself has no significant contingent liabilities.

Notes to the Financial Statements

21. INTERESTS IN ASSOCIATES – THE GROUP

	2006 HK$'000	2005 HK$'000
Share of net assets at 1 January	**77,176**	42,838
Share of associates' results		
– Profit before income tax	**40,224**	27,752
– Income tax expense	**(10,354)**	(2,706)
	29,870	25,046
Acquisition of subsidiaries *(Note 38)*	**–**	10,257
Acquisition of additional interests in an associate	**62**	–
Exchange difference	**2,178**	592
Dividends received	**(7,804)**	(1,557)
Reclassified as jointly controlled entity	**(60,881)**	–
Share of net assets at 31 December	**40,601**	77,176
Amounts due from associates *(Note)*	**34,565**	39,113
Less: Provision for impairment	**(27,281)**	(31,173)
	7,284	7,940
	47,885	85,116

Note: The amounts due from associates are unsecured, interest-free and not repayable within twelve months.

Notes to the Financial Statements

21. INTERESTS IN ASSOCIATES – THE GROUP *(cont'd)*

The Group's interest in its principal associates, all of which are unlisted, are as follows:

Name	Particulars of paid-up capital	Country of incorporation	Assets	Liabilities	Revenue	Profit	Interest held
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	
2006							
Qingdao M. C. Packaging Limited[1]	**US$25,000,000**	**PRC**	**33,995**	**24,795**	**44,475**	**1,186**	**20%**
Sino Nickel Pty Ltd	**A$1,000,000**	**Australia**	**98,359**	**67,580**	**521,523**	**19,796**	**40%**
2005							
Changzhou Jinyuan Copper Company Limited[1]	Rmb100,000,000	PRC	168,286	112,687	844,144	13,791	25%
Qingdao M. C. Packaging Limited[1]	US$25,000,000	PRC	33,585	25,921	39,970	7,591	20%
Sino Nickel Pty Ltd	A$1,000,000	Australia	36,114	22,722	96,007	3,559	40%

Note:

1 These are sino-foreign equity joint ventures registered under the PRC laws.

22. ALUMINA PURCHASING RIGHTS AND PROVISION FOR SALES CONTRACT OBLIGATIONS – THE GROUP

On 6 October 2005, certain alumina purchase agreements and sales agreements were taken up by the Group through the acquisition of Peak Strategic Industries Limited (Note 38). In applying the purchase method to account for the acquisition, the identifiable assets acquired and liabilities assumed, including the alumina purchase agreements and sales agreements, in the business combination were measured initially at their fair values at the completion date of the acquisition. Such fair values were determined with reference to the independent professional appraisers' valuation report.

Subsequent to the above valuation and in response to the decline in alumina market prices in the third quarter of 2006, the Group appointed independent professional appraisers to perform another valuation on 30 September 2006 for the alumina purchase agreements and sales agreements. With reference to the valuation, provisions for impairment losses of approximately HK$818,474,000 and HK$59,139,000 were made by the directors in respect of the alumina purchasing rights under the long-term purchase agreement and short-term purchase agreements respectively. In addition, a write-back of provision for sales contract obligations of approximately HK$288,395,000 were recorded. As a result of these changes, there was a net write-back of deferred income tax liabilities of approximately HK$643,846,000.

Notes to the Financial Statements

22. ALUMINA PURCHASING RIGHTS AND PROVISION FOR SALES CONTRACT OBLIGATIONS – THE GROUP *(cont'd)*

(a) Alumina purchasing rights under a long-term purchase agreement

	2006	2005
	HK$'000	*HK$'000*
At 1 January	**3,601,301**	–
Acquisition of subsidiaries *(Note 38)*	**–**	3,634,800
Provision for impairment	**(818,474)**	–
Amortisation	**(160,678)**	(33,499)
At 31 December	**2,622,149**	3,601,301

The balance as at 31 December 2006 represented the rights to purchase alumina up to 400,000 tonnes per annum for the period from 2007 to 2027 at a price determined pursuant to the long-term alumina purchase agreement.

As at 31 December 2006, the above alumina purchasing rights were pledged to a bank to secure certain banking facilities of the Group.

(b) Alumina purchasing rights under short-term purchase agreements

	2006	2005
	HK$'000	*HK$'000*
At 1 January	**293,160**	–
Acquisition of subsidiaries *(Note 38)*	**–**	468,000
Provision for impairment	**(59,139)**	–
Amortisation	**(234,021)**	(174,840)
At 31 December	**–**	293,160

As at 31 December 2006, all the short-term alumina purchase agreements taken up by the Group through the acquisition of Peak Strategic Industries Limited had expired.

Notes to the Financial Statements

22. ALUMINA PURCHASING RIGHTS AND PROVISION FOR SALES CONTRACT OBLIGATIONS – THE GROUP *(cont'd)*

(c) Provision for sales contract obligations

	2006	2005
	HK$'000	*HK$'000*
At 1 January	**1,058,658**	–
Acquisition of subsidiaries *(Note 38)*	**–**	1,336,140
Write-back of provision	**(288,395)**	–
Realisation	**(770,263)**	(277,482)
At 31 December	**–**	1,058,658

The provision for sales contract obligations of the Group is analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**–**	1,033,799
Non-current	**–**	24,859
	–	1,058,658

As at 31 December 2006, all but one of the alumina sales agreements taken up by the Group through the acquisition of Peak Strategic Industries Limited had expired. No provision was made for this remaining alumina sales agreement as at 31 December 2006.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS – THE GROUP

	2006	2005
	HK$'000	*HK$'000*
At 1 January	**313,663**	–
Acquisition of subsidiaries *(Note 38)*	**–**	203,835
Disposals	**(113,275)**	–
Revaluation surplus transfer to equity *(Note 30)*	**250,545**	109,828
At 31 December	**450,933**	313,663

There were no impairment provisions on available-for-sale financial assets in 2006 or 2005.

Notes to the Financial Statements

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS – THE GROUP *(cont'd)*

Available-for-sale financial assets represent:

	2006 **HK$'000**	2005 *HK$'000*
Listed equity securities – Australia	**450,933**	313,663
Market value of listed securities	**450,933**	313,663

24. DEFERRED INCOME TAX – THE GROUP

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2005: 33%).

(a) The movements on the deferred income tax assets/(liabilities) account are as follows:

	Impairment of assets		Alumina purchasing rights		Provision for sales contract obligations		Others		Total	
	2006 **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*
At 1 January	**20,613**	4,352	**(1,037,795)**	–	**349,357**	–	**3,236**	3,491	**(664,589)**	7,843
Exchange differences	**1,640**	236	**-**	–	**-**	–	**(35)**	65	**1,605**	301
Acquisition of subsidiaries *(Note 38)*	**-**	–	**-**	(1,104,246)	**-**	440,926	**-**	(10,520)	**-**	(673,840)
Proportionate consolidation of a jointly controlled entity	**-**	–	**-**	–	**-**	–	**(4,400)**	–	**(4,400)**	–
Credited/(charged) to the income statement *(Note 9)*	**22,212**	16,025	**854,012**	66,451	**(349,357)**	(91,569)	**(3,140)**	10,200	**523,727**	1,107
At 31 December	**44,465**	20,613	**(183,783)**	(1,037,795)	**-**	349,357	**(4,339)**	3,236	**(143,657)**	(664,589)

(b) Deferred income tax assets are recognised for tax losses available for carried forward to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK$269 million (2005: HK$296 million) to carry forward against future taxable income. Deferred income tax assets for these tax losses are not recognised as the future realisation is uncertain. The tax losses do not expire under current tax legislation.

Notes to the Financial Statements

24. DEFERRED INCOME TAX – THE GROUP *(cont'd)*

(c) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2006 **HK$'000**	2005 HK$'000
Net deferred income tax assets recognised on the balance sheet	**19,915**	23,849
Net deferred income tax liabilities recognised on the balance sheet	**(163,572)**	(688,438)
	(143,657)	(664,589)

25. INVENTORIES – THE GROUP

	2006 **HK$'000**	2005 HK$'000
Raw materials	**130,720**	45,168
Work in progress	**83,908**	100,078
Finished goods	**172,153**	79,476
Commodities held for sales	**103,472**	100,902
Goods-in-transit	**108,326**	618,173
	598,579	943,797

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$10,937,000,000 (2005: HK$2,950,000,000). During the year, the Group has written down certain commodities held for sales and finished goods by approximately HK$75,119,000 (2005: HK$572,000). Such write-down has been included in cost of sales in the income statement.

Certain banking facilities of the Group are secured by the Group's inventories with a total carrying amount of approximately HK$14,400,000 (2005: Nil).

Notes to the Financial Statements

26. TRADE AND BILLS RECEIVABLE – THE GROUP

The majority of sales derived from trading operation are under the arrangement of delivery upon payment from customers, with the remaining amounts on letters of credit. For other business segments, sales are normally made with credit periods ranging from 30 to 90 days. An aging analysis of trade receivables is shown as follows:

	2006		2005	
	HK$'000	**%**	*HK$'000*	%
Trade receivables				
Less than 6 months	**275,199**	**81**	232,554	77
6 months – 1 year	**2,583**	**1**	4,770	2
Over 1 year	**63,094**	**18**	63,994	21
	340,876	**100**	301,318	100
Less: Provision for impairment of receivables	**(65,144)**		(70,938)	
Trade receivables – net	**275,732**		230,380	
Bills receivable *(Note)*	**662,158**		271,790	
	937,890		502,170	

Note: Bills receivable are with maturity dates of less than 6 months. Approximately HK$554,968,000 (2005: HK$271,790,000) of which has been discounted to banks or endorsed to suppliers.

The directors consider the carrying amount of trade and bills receivable approximates their fair value. There is no major concentration of credit risk with respect to trade receivables, as the Group has a large number of customers which are widely dispersed.

The Group has recognised a reversal of impairment provision for trade and bills receivable of HK$6,223,000 during the year ended 31 December 2006 (2005: HK$59,814,000). Such amount has been recognised in the income statement as part of other income-net.

Notes to the Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS – THE GROUP

	2006		2005	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Carried at fair value				
– Aluminium forward contracts	**–**	**(55,038)**	–	(139,118)
– Interest rate swaps	**–**	**(8,210)**	–	(31,170)
– Foreign exchange forward contracts	**818**	**–**	6,009	–
– Aluminium options	**–**	**–**	–	(10,613)
– Copper futures contracts	**–**	**(3,573)**	–	–
	818	**(66,821)**	6,009	(180,901)
The derivative financial instruments are analysed as follows:				
Non-current portion				
– Aluminium forward contracts	**–**	**(7,968)**	–	–
– Interest rate swaps	**–**	**–**	–	(14,970)
	–	**(7,968)**	–	(14,970)
Current portion				
– Aluminium forward contracts	**–**	**(47,070)**	–	(139,118)
– Interest rate swaps	**–**	**(8,210)**	–	(16,200)
– Foreign exchange forward contracts	**818**	**–**	6,009	–
– Aluminium options	**–**	**–**	–	(10,613)
– Copper futures contracts	**–**	**(3,573)**	–	–
	818	**(58,853)**	6,009	(165,931)
Total	**818**	**(66,821)**	6,009	(180,901)

(a) Aluminium forward contracts

The total notional principal amount of the outstanding aluminium forward contracts as at 31 December 2006 was approximately HK$655 million (2005: HK$466 million). Under the terms of the contracts, the Group will sell 40,830 tonnes (2005: 34,875 tonnes) of aluminium with prices ranging from US$2,395 to US$2,747 per tonne (2005: US$1,700 to US$1,800 per tonne).

Notes to the Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS – THE GROUP *(cont'd)*

(b) Copper futures contracts

The Group's share of the total notional principal amount of the outstanding copper futures contracts entered into by a jointly controlled entity, which was owned as to 36% by the Group at 31 December 2006, amounted to approximately HK$113 million (2005: Nil) as at 31 December 2006.

(c) Interest rate swaps

The total notional principal amount of the outstanding interest rate swaps as at 31 December 2006 was approximately HK$534 million (2005: HK$624 million).

As at 31 December 2006, the fixed interest rate was 8.5% (2005: 8.5%) per annum and the principal floating rate was LIBOR.

(d) Foreign exchange forward contracts

The total notional principal amount of the outstanding foreign exchange forward contracts as at 31 December 2006 was approximately HK$12 million (2005: HK$31 million). Under the terms of the contracts, the Group will buy approximately A$2 million (2005: A$7 million) at an average exchange rate of US$0.7255:A$1 (2005: US$0.6022:A$1).

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**1,354,788**	576,930	**28,916**	75,967
Short-term bank deposits	**1,313,287**	361,156	**1,209,469**	271,357
	2,668,075	938,086	**1,238,385**	347,324
Pledged bank deposits	**38,209**	49,659	**–**	–
	2,706,284	987,745	**1,238,385**	347,324

The effective interest rate on short-term bank deposits was 3.9% (2005: 4.2%) per annum. These deposits have an average maturity of 20 days (2005: 19 days).

Certain banking facilities of the Group are secured by the above pledged bank deposits.

Notes to the Financial Statements

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(cont'd)*

The carrying amounts of the cash and cash equivalents and pledged bank deposits are denominated in the following currencies:

	The Group		The Company	
	2006	*2005*	**2006**	*2005*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi	**891,965**	361,078	**102**	66,550
US dollar	**539,443**	348,763	**46,918**	61,731
Hong Kong dollar	**1,191,641**	219,323	**1,191,356**	219,043
Australian dollar	**83,235**	58,581	**9**	–
	2,706,284	987,745	**1,238,385**	347,324

29. SHARE CAPITAL

	Number of shares *(in thousand)*	Ordinary shares *HK$'000*
At 1 January 2005	607,350	30,367
Issue of new shares *(Note)*	1,009,091	50,455
Placing of new shares *(Note)*	98,000	4,900
At 31 December 2005 and 31 December 2006	1,714,441	85,722

Note: The Company issued 1,009,090,909 new shares on 6 October 2005 to Top Create Resources Limited, a wholly owned subsidiary of its existing ultimate holding company, as the purchase consideration for the entire issued share capital of Peak Strategic Industries Limited, which is the holding company of a group of companies principally engaged in alumina and aluminium trading business. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the new shares issued at the completion date of the acquisition amounted to approximately HK$2,144,318,000 (HK$2.125 per share) (Note 38).

To maintain the public float of not less than 25%, the Company (by way of issuing new shares) and Coppermine (by way of selling the existing shares it held) placed an aggregate 278,000,000 shares to independent third parties on 6 October 2005. The placing price was HK$2.3 per share. In this placing, the Company issued 98,000,000 new shares.

The Company's costs in relation to the above issuance of new shares amounted to approximately HK$5,594,000.

As at 31 December 2006 and 2005, the total number of authorised ordinary shares is 6,000 million shares with a par value of HK$0.05 per share. All issued shares are fully paid.

Notes to the Financial Statements

30. RESERVES

(a) The Group

	Share premium HK$'000	Capital reserve HK$'000	Special capital reserve *(Note (d))* HK$'000	General reserve HK$'000	PRC statutory reserves HK$'000	Exchange translation reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Hedging reserve HK$'000	Share options reserve HK$'000	Accumu-lated losses HK$'000	Total HK$'000
Balance at 1st January 2005	1,194,593	48,380	125,374	15,600	70,448	2,029	–	–	–	(1,064,786)	391,638
Issue of new shares, net of issuing expenses *(Note 29)*	2,308,769	–	–	–	–	–	–	–	–	–	2,308,769
Transfer to PRC statutory reserves	–	–	–	–	2,152	–	–	–	–	(2,152)	–
Currency translation differences	–	–	–	–	–	3,320	–	–	–	–	3,320
Fair value gain on available-for-sale financial assets *(Note 23)*	–	–	–	–	–	–	109,828	–	–	–	109,828
Profit for the year	–	–	–	–	–	–	–	–	–	181,746	181,746
Balance at 31 December 2005	3,503,362	48,380	125,374	15,600	72,600	5,349	109,828	–	–	(885,192)	2,995,301
Transfer to PRC statutory reserves	–	–	–	–	87,758	–	–	–	–	(87,758)	–
Currency translation differences	–	–	–	–	–	45,676	–	–	–	–	45,676
Available-for-sale financial assets											
– Disposals	–	–	–	–	–	–	(39,663)	–	–	–	(39,663)
– Fair value gain *(Note 23)*	–	–	–	–	–	–	250,545	–	–	–	250,545
Cash flow hedge	–	–	–	–	–	–	–	818	–	–	818
Recognition of equity-settled share-based payment *(Note 37)*	–	–	–	–	–	–	–	–	21,662	–	21,662
Profit for the year	–	–	–	–	–	–	–	–	–	865,320	865,320
Balance at 31 December 2006	3,503,362	48,380	125,374	15,600	160,358	51,025	320,710	818	21,662	(107,630)	4,139,659

Notes to the Financial Statements

30. RESERVES

(b) The Company

	Share premium HK$'000	Capital reserve HK$'000	Special capital reserve (Note (d)) HK$'000	General reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2005	1,194,593	48,380	125,374	15,600	–	(1,040,183)	343,764
Issue of new shares, net of issuing expenses *(Note 29)*	2,308,769	–	–	–	–	–	2,308,769
Profit for the year	–	–	–	–	–	126,999	126,999
Balance at 31 December 2005	3,503,362	48,380	125,374	15,600	–	(913,184)	2,779,532
Recognition of equity-settled share-based payment *(Note 37)*	–	–	–	–	21,662	–	21,662
Profit for the year	–	–	–	–	–	29,169	29,169
Balance at 31 December 2006	3,503,362	48,380	125,374	15,600	21,662	(884,015)	2,830,363

(c) PRC statutory reserves comprise statutory reserve fund and enterprise expansion reserve, which are reserves required by the relevant PRC laws applicable to the Group's subsidiaries and cannot be used for distribution in the form of cash dividends.

For the Group's subsidiaries registered under the Laws of the PRC on Joint Ventures with Chinese and Foreign Investment, the appropriations to statutory reserve fund and enterprise expansion reserve are determined at the discretion of the board of directors of the respective subsidiaries.

For the Group's subsidiaries registered under the Laws of the PRC on Enterprises Operated Exclusively with Foreign Capital, the appropriations to statutory reserve fund and enterprise expansion reserve are determined at the discretion of the board of directors of the respective subsidiaries. However, the appropriation to statutory reserve fund should not be less than 10% of their profit after income tax as stated in the PRC statutory financial statements unless the statutory reserve fund reaches 50% of their registered capital.

The statutory reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or to increase the capital of the subsidiaries upon approval by the regulatory authority.

(d) With a capital reduction taking effect on 6 January 2004, a credit of HK$125,374,060 was transferred from the share capital account to a special capital reserve account. The Company has undertaken that the special capital reserve will be used for the purpose of eliminating or reducing in future the accumulated losses of the Company.

Notes to the Financial Statements

31. DEFERRED INCOME – THE GROUP

	2006	2005
	HK$'000	*HK$'000*
At 1 January	**27,138**	28,302
Exchange differences	**1,001**	527
Amortisation *(Note 6)*	**(2,315)**	(1,691)
At 31 December	**25,824**	27,138

Deferred income represents grants obtained from the PRC government in relation to the purchase of certain plant and machinery of the Group.

32. BANK LOANS – THE GROUP

	2006	2005
	HK$'000	*HK$'000*
Amount due within one year and included under current liabilities	**1,072,170**	533,841
Amount due after one year	**–**	617,477
Total bank loans	**1,072,170**	1,151,318
Analysed as:		
– Secured	**865,800**	1,036,691
– Unsecured	**206,370**	114,627
	1,072,170	1,151,318
Bank loans are repayable as follows:		
– Within 1 year	**1,072,170**	533,841
– Between 1 to 2 years	**–**	617,477
	1,072,170	1,151,318

Notes to the Financial Statements

32. BANK LOANS – THE GROUP *(cont'd)*

An analysis of the carrying amounts of the Group's bank loans by type and currency is as follows:

	2006 **HK$'000**	2005 *HK$'000*
Renminbi		
– at fixed rates	**450,777**	276,923
US dollar		
– at fixed rates	**51,993**	111,743
– at floating rates	**569,400**	762,652
	1,072,170	1,151,318

The effective interest rates at the balance sheet date were as follows:

	2006		2005	
	US$	***RMB***	*US$*	*RMB*
Bank loans	**6.20%**	**5.62%**	4.90%	5.25%

The directors consider the carrying amounts of bank loans approximate their fair values.

As at 31 December 2006, the bank loans of the Group were secured by:

(i) all the equity interests of a wholly-owned subsidiary, Sino Mining Alumina Limited ("Sino Mining") and all the assets of Sino Mining;

(ii) certain property, plant and equipment, land use rights and inventories of the Group with a total carrying amount of approximately HK$382,680,000 (2005: HK$399,809,000); and

(iii) pledged bank deposits of approximately HK$38,209,000 (2005: HK$49,659,000).

Notes to the Financial Statements

33. CONVERTIBLE BONDS – THE GROUP

On 7 December 2006, First Harvest Limited ("First Harvest"), a wholly-owned subsidiary of the Group, issued zero coupon guaranteed convertible bonds of an aggregate principal amount of HK$1,000,000,000 (the "Bonds"). Each bond will, at the option of the holder, be convertible on or after 17 January 2007 up to 28 November 2011 into fully paid ordinary share with a par value of HK$0.05 each of the Company at an initial conversion price of HK$2.925 per share (subject to adjustment in certain events) (the "Conversion Option"). Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 127.236% of their principal amount on 7 December 2011 ("Maturity Date").

At any time on or after 7 December 2009 but not less than seven business days prior to the Maturity Date, the Group may redeem the Bonds in whole but not in part at an early redemption amount if the share price of the Company reached 130% or more of such early redemption amount divided by the conversion ratio (the "Mandatory Option"). The conversion ratio is equal to the principal amount of each bond divided by the then conversion price.

The derivative component, as represented by the Conversion Option and Mandatory Option, will be remeasured at fair value on each balance sheet date by using the binominal model. The initial carrying amount of the liability component, as represented by the residual amount after separating the above derivative component on initial recognition, is subsequently carried at amortised cost by using the effective interest method.

The Bonds recognised in the balance sheet are calculated as follows:

	2006 *HK$'000*
Face value of the Bonds issued on 7 December 2006	**1,000,000**
Issuing expenses	**(23,897)**
Derivative component	**(304,300)**
Liability component at the issuance date	**671,803**
Interest expense *(Note 8)*	**4,034**
Liability component at 31 December 2006	**675,837**
Derivative component at 31 December 2006	**304,300**
	980,137

Notes to the Financial Statements

33. CONVERTIBLE BONDS – THE GROUP *(cont'd)*

The fair value of the derivative component of the Bonds is estimated by using the binominal model, which is subject to certain fundamental limitations because of the subjective nature of and uncertainty relating to the assumptions and inputs to the model as well as certain inherent limitations of the model itself. Any changes in these assumptions or inputs may materially affect the fair value estimation. The major inputs used in the valuation on 7 December 2006 (the initial recognition date) are as follows:

Stock price	HK$2.37
Exercise price	HK$2.925
Volatility	46%
Dividend yield	0%
Risk-free rate	3.704%

Interest expense is calculated using the effective interest method by applying the effective interest rate of 12.83% to the adjusted liability component. Should the abovementioned derivative component not be separated and the entire bond be considered as the liability component, the effective interest rate would have been 5.44%.

During the year ended 31 December 2006, no Bonds were redeemed, converted or purchased and cancelled.

34. FINANCIAL GUARANTEE CONTRACTS

(a) Granted by the Company to a jointly controlled entity

In relation to a financial guarantee of RMB36,000,000 (equivalent to approximately HK$36,000,000) granted to a bank over the repayment of a loan by a jointly controlled entity (formerly an associate), no recognition was made because the fair value of such guarantee was insignificant.

(b) Granted by the Company to a subsidiary

The Company has provided a guarantee in relation to the issuance of convertible bonds by a wholly-owned subsidiary (Note 33). The net proceeds from the issuance of the convertible bonds was advanced to the Company and recorded as current liabilities in the Company's balance sheet.

Notes to the Financial Statements

35. TRADE AND BILLS PAYABLE – THE GROUP

An aging analysis of the trade payables is shown as follows:

	2006		2005	
	HK$'000	**%**	*HK$'000*	%
Trade payables				
Less than 6 months	**245,173**	**95**	196,264	100
6 months – 1 year	**4,134**	**2**	25	–
1 – 2 years	**7,767**	**3**	26	–
Over 2 years	**102**	**–**	111	–
	257,176	**100**	196,426	100
Trade payables under endorsed bills	**259,269**		216,011	
Bills payable	**125,873**		63,191	
	642,318		475,628	

36. RETIREMENT SCHEMES

The Group provides retirement benefits to all Hong Kong eligible employees under the Mandatory Provident Fund (the "MPF Scheme"). Under the MPF Scheme, the Group and their employees make monthly contributions to the MPF Scheme at 5% of the employees' salaries as defined under the Mandatory Provident Fund legislation. Contributions of both the Hong Kong subsidiaries and their employees are subject to a maximum of HK$1,000 per month and thereafter contributions are voluntary and are not subject to any limitation. The MPF Scheme is administered by an independent trustee and its assets are held separately from those of the Group.

In accordance with applicable PRC regulations, the PRC staff of the Group participates in retirement benefit plans organised by the provincial and municipal governments, under which the Group and its employees are each required to contribute an amount to the plan at the rate specified in the rules of such plans. The Group has no other material obligations for the payment of retirement benefit associated with such plans other than the required contributions. The contributions arising from the PRC provincial and municipal government retirement benefit plans are charged to the income statement of the Group, and represent contributions paid or payable by the Group at the rate specified in the rules of the plan.

The Group contributes to a superannuation fund for all Australian employees, which is established to provide benefits for employees and their dependants in retirement, disabilities or death. The superannuation plan requires defined contributions by reference to accumulated contributions plus income from fund contributed. Contributions by the Group of up to 9% of Australian employees' wages and salaries are legally enforceable in Australia.

Notes to the Financial Statements

36. RETIREMENT SCHEMES *(cont'd)*

The Group's total contributions to these schemes during the year ended 31 December 2006 amounted to approximately HK$10,817,000 (2005: HK$11,901,000).

37. SHARE OPTION SCHEME

(a) 1994 share option scheme

This share option scheme was adopted by the Company on 25 November 1994 and expired on 24 November 2004. After its expiry, no further options have been granted but its provisions remain in force to govern the exercise of the options that continue to be valid and outstanding.

The movements of the share options granted under the 1994 share option scheme during the year are as follows:

				Number of options		
Category and name of participant	Date of grant	Exercise price per share	Exercise period	Balance as at 1 January 2006	Lapsed during the period	Balance as at 31 December 2006
		HK$				
Director						
Xu Huizhong	15 March 2004	3.115	16 March 2004 to 15 March 2007	2,000,000	–	2,000,000
Employees of the Group	15 March 2004	3.115	16 March 2004 to 15 March 2007	4,610,000	(580,000)	4,030,000
				6,610,000	(580,000)	6,030,000

There were no share options granted, exercised or cancelled under the 1994 share option scheme during the year.

Notes to the Financial Statements

37. SHARE OPTION SCHEME *(cont'd)*

(b) 2004 share option scheme

This share option scheme was adopted by the Company on 28 May 2004, which is in compliance with the new requirements as set out in Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. On 18 April 2006, 23,500,000 share options were granted to certain directors and employees of the Group. The exercise price of these options is equal to the market price at the grant date.

Details of the share options granted under the 2004 share option scheme during the year are as follows:

Category and name of participant	Date of grant	Exercise price per share	Exercise period	Number of options: Balance as at 1 January 2006	Granted during the period	Balance as at 31 December 2006
		HK$				
Directors						
Zhou Zhongshu	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	3,000,000	3,000,000
Xu Huizhong	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	2,600,000	2,600,000
Wang Lixin	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	2,000,000	2,000,000
Shen Ling	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	1,500,000	1,500,000
Zhang Shoulian	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	1,500,000	1,500,000
Li Linhu	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	1,500,000	1,500,000
Zong Qingsheng	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	1,500,000	1,500,000
Employees of the Group (Note)	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	9,900,000	9,900,000
				–	23,500,000	23,500,000

Note: One of the employees was granted 1,000,000 options on 18 April 2006 with a vesting period of 18 months starting from 22 February 2006 till 21 August 2007.

There were no options exercised, cancelled or lapsed under the 2004 share option scheme during the year.

Notes to the Financial Statements

37. SHARE OPTION SCHEME *(cont'd)*

(b) 2004 share option scheme *(cont'd)*

The fair value of the share options granted during the year ended 31 December 2006, amounted to approximately HK$22,064,000. It was estimated as at the date of grant by using a binominal model, taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the valuation model are as follows:

Expected volatility	:	50%, based on historical volatility of the Company's shares for the past 100 days before the day of grant.
Risk-free interest rate	:	4.309% per annum, based on the rate of Hong Kong Exchange Fund Notes.
Expected life of the share options	:	2.5 years
Expected dividend yield	:	0%

Binominal model is subject to certain fundamental limitations because of the subjective nature of and uncertainty relating to the assumptions and inputs to the model as well as certain inherent limitations of the model itself. Any changes in the above assumptions or inputs may materially affect the fair value estimation.

The fair value of the 23,500,000 share options granted, amounting to approximately HK$22,064,000, is to be recognised as an employee benefit expense of the Group according to the vesting conditions. An amount of approximately HK$21,662,000 (2005: Nil) was charged as employee benefit expense for the year ended 31 December 2006.

Notes to the Financial Statements

38. BUSINESS COMBINATIONS

Acquisition of subsidiaries

(i) Year ended 31 December 2006:

On 27 December 2006, the Group acquired the remaining 10% interest in Minmetals Non-ferrous Lianyungang Company Limited, a subsidiary engaged in the provision of logistics services and was owned as to 90% by the Group before the acquisition. The purchase consideration was HK$318,000 and was settled by cash. A negative goodwill of approximately HK$431,000 was recognised in the consolidated income statement.

(ii) Year ended 31 December 2005:

On 6 October 2005, the Group acquired all the share capital of Peak Strategic Industries Limited, which was incorporated in the British Virgin Islands and is a holding company of a group of companies principally engaged in alumina and aluminium trading business. The total revenue and consolidated net profit of the acquired business amounted to HK$8,811,910,000 and HK$448,676,000 respectively for the year ended 31 December 2006. The contribution to the Group's total revenue and profit by the acquired business amounted to HK$2,017,150,000 and HK$56,202,000 (including a negative goodwill of HK$80,873,000 recognised in the acquisition) respectively for the period from 6 October 2005 to 31 December 2005.

Details of net assets acquired and negative goodwill are as follows:

	HK$'000
Purchase consideration:	
– Fair value of shares issued *(Note 29)*	2,144,318
– Direct costs relating to the acquisition	16,056
Total purchase consideration	2,160,374
Fair value of net assets acquired – shown as below	(2,241,247)
Negative goodwill recognised in income statement	(80,873)

Notes to the Financial Statements

38. BUSINESS COMBINATIONS *(cont'd)*

Acquisition of subsidiaries *(cont'd)*

(ii) Year ended 31 December 2005: *(cont'd)*

The fair value of the shares issued was based on the published share price at the completion date of the acquisition.

	Fair value *HK$'000*	**Acquiree's carrying amount** *HK$'000*
Property, plant and equipment *(Note 15)*	1,319	1,319
Interest in an associate *(Note 21)*	10,257	10,257
Alumina purchasing rights		
– under a long-term purchase agreement *(Note 22)*	3,634,800	1,357,052
– under short-term purchase agreements *(Note 22)*	468,000	–
Available-for-sale financial assets *(Note 23)*	203,835	203,835
Inventories	392,185	360,307
Trade and other receivables	65,220	65,220
Amount due from an intermediate holding company	277,168	277,168
Pledged bank deposits	36,145	36,145
Cash and cash equivalents	705,686	705,686
Trade and bills payable	(719,780)	(719,780)
Amounts due to fellow subsidiaries	(6,372)	(6,372)
Provision for sales contract obligations *(Note 22)*	(1,336,140)	–
Derivative financial instruments	(85,281)	(85,281)
Income tax liabilities	(103,539)	(103,539)
Deferred income tax liabilities *(Note 24)*	(673,840)	–
Bank loans	(627,900)	(627,900)
Net assets	2,241,763	1,474,117
Minority interest	(516)	(516)
Net assets acquired	2,241,247	1,473,601
Purchase consideration settled in cash		(16,056)
Cash and cash equivalents in subsidiaries acquired		705,686
Net cash inflow on acquisition		689,630

Notes to the Financial Statements

39. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit for the year to net cash generated from/(used in) operations is as follows:

	2006 **HK$'000**	2005 HK$'000
Profit for the year	**878,608**	203,081
Adjustments for:		
– Income tax (credit)/expense	**(343,066)**	24,532
– Share of profits less losses of associates	**(29,870)**	(25,046)
– Interest income	**(44,542)**	(12,197)
– Interest expense	**96,653**	26,555
– Depreciation of property, plant and equipment and amortisation of land use rights	**60,164**	44,589
– Loss/(gain) on disposal of property, plant and equipment and investment properties (see below)	**310**	(36)
– Provision for inventory impairment	**75,119**	572
– Reversal of provision for impairment of receivables	**(10,115)**	(75,093)
– Reversal of provision for impairment loss of property, plant and equipment and construction in progress	**(209)**	(2,407)
– Fair value (gain)/loss on investment properties	**(60)**	556
– Gain on disposal of available-for-sale financial assets	**(31,956)**	–
– Amortisation of deferred income	**(2,315)**	(1,691)
– Amortisation of alumina purchasing rights	**394,699**	208,339
– Provision for impairment of alumina purchasing rights	**877,613**	–
– Write-back of provision for sales contract obligations	**(288,395)**	–
– Realisation of provision for sales contract obligations	**(770,263)**	(277,482)
– Reversal of provision for a guarantee to a third party	**–**	(6,857)
– Write-back of trade payable and accruals	**–**	(5,831)
– Negative goodwill recognised	**(8,518)**	(80,873)
– Share-based payments in relation to share options granted to directors and employees	**21,662**	–
– Net foreign exchange gains on operating activities	**–**	(105)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Amounts due from associates	**4,530**	7,564
– Inventories	**378,313**	(323,348)
– Trade and bills receivable and prepayments, deposits and other receivables	**(130,707)**	114,838
– Amount due from an intermediate holding company	**183,199**	94,243
– Amounts due from fellow subsidiaries	**(7,483)**	24,959
– Trade and bills payable and accruals, receipt in advance and other payables	**(223,473)**	(236,896)
– Derivative financial instruments	**(103,424)**	89,611
– Amounts due to holding companies	**390**	–
– Amounts due to fellow subsidiaries	**(6,671)**	518
– Amounts due to associates	**810**	–
Net cash generated from/(used in) operations	**971,003**	(207,905)

Notes to the Financial Statements

39. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

In the cash flow statement, proceeds from disposal of property, plant and equipment and investment properties comprise:

	2006	2005
	HK$'000	*HK$'000*
Net book amount	**5,655**	872
(Loss)/gain on disposal of property, plant and equipment and investment properties	**(310)**	36
Proceeds from disposal of property, plant and equipment and investment properties	**5,345**	908

Major non-cash transactions

For the year ended 31 December 2005, the major non-cash transaction was the issue of new shares as the consideration for the acquisition of a subsidiary, Peak Strategic Industries Limited.

40. CONTINGENT LIABILITIES

As at 31 December 2006, the Group had unsettled tax payables in respect of certain properties in the PRC which may result in additional charges. No provision has been made by the Group since the directors believe that the possibility of settlement of these payables by the Group is remote. The directors of the Company are of the opinion that the potential additional charges will not exceed HK$1,500,000 (2005: HK$1,400,000).

41. COMMITMENTS

(a) Operating leases

The Group leases various warehouses, offices and factory premises under non-cancellable operating leases. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Not later than one year	**3,034**	3,197
Later than one year and not later than five years	**3,354**	6,562
	6,388	9,759

The Company has no outstanding operating lease commitment as at 31 December 2006 and 2005.

Notes to the Financial Statements

41. COMMITMENTS *(cont'd)*

(b) Capital commitments

Capital expenditures not yet incurred are as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Property, plant and equipment		
Contracted but not provided for	**10,416**	8,833
Authorised but not contracted for	**99,817**	41,778
	110,233	50,611
Acquisition of additional equity interests in a subsidiary or an associate		
Authorised but not contracted for	**70,000**	18,721

The Company had no material commitment as at 31 December 2006 and 2005.

42. RELATED PARTY TRANSACTIONS

The Group is controlled by Top Create Resources Limited ("Top Create") (incorporated in the British Virgin Islands), which owns 58.86% of the Company's shares. The second largest shareholder of the Company is Coppermine Resources Limited ("Coppermine") (incorporated in the British Virgin Islands), which owns 16.06% of the Company's shares. The remaining 25.08% of the shares are widely held. Both Top Create and Coppermine are subsidiaries of the Group's ultimate holding company, China Minmetals Corporation, a state-owned enterprise established in the PRC.

China Minmetals Corporation itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of productive assets in the PRC. In accordance with HKAS 24 "Related Party Disclosures" issued by the Hong Kong Institute of Certified Public Accountants, other state-owned enterprises and their subsidiaries (other than subsidiaries of China Minmetals Corporation), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include China Minmetals Corporation and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and China Minmetals Corporation as well as their close family members.

For the purpose of the related party transactions disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have a multi-layered corporate structure and the ownership structure may also change over time as a result of the transfers and privatisation programmes. Nevertheless, management believes that all material related party transactions and balances have been adequately disclosed.

Notes to the Financial Statements

42. RELATED PARTY TRANSACTIONS *(cont'd)*

Material transactions with related parties during the year are as follows:

(a) Transactions with associates of the Group

	2006 **HK$'000**	2005 *HK$'000*
Revenue		
Sales of non-ferrous metals	**–**	32,422
Rental income received	**123**	76
Expenses		
Purchase of non-ferrous metals	**280,851**	–
Transportation fees paid	**12,777**	10,454

(b) Transactions with subsidiaries of China Minmetals Corporation

	2006 **HK$'000**	2005 *HK$'000*
Revenue		
Commission income received from an intermediate holding company	**–**	74
Expenses		
Purchase of non-ferrous metals from an intermediate holding company	**391,998**	–
Purchase of non-ferrous metals from fellow subsidiaries	**280,804**	84,520
Transportation fees paid to fellow subsidiaries	**63,844**	6,994
Commission fees paid to an immediate holding company	**156**	135
Rental expenses paid to ultimate holding company	**282**	67
Rental expenses paid to fellow subsidiaries	**973**	695

Notes to the Financial Statements

42. RELATED PARTY TRANSACTIONS *(cont'd)*

(c) Transactions with other state-owned enterprises

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Sales of non-ferrous metals	**4,471,966**	1,051,528
Expenses		
Purchase of non-ferrous metals	**1,468,380**	1,045,125
Transportation fees paid	**41,469**	23,199
Others		
Purchase of construction in progress	**–**	9,432

(d) Key management compensation

	2006	2005
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**14,581**	5,154
Share-based payments	**17,531**	–
	32,112	5,154

(e) Year-end balances

	2006	2005
	HK$'000	*HK$'000*
Receivables, net from		
– an intermediate holding company	**–**	182,925
– associates	**7,284**	7,940
– fellow subsidiaries	**7,779**	–
– other state-owned enterprises	**94,278**	80,119
Payables to		
– ultimate holding company	**75**	–
– an intermediate holding company	**331**	–
– fellow subsidiaries	**260**	6,890
– associates	**840**	–
– other state-owned enterprises	**49,950**	189,340

Notes to the Financial Statements

42. RELATED PARTY TRANSACTIONS *(cont'd)*

(e) Year-end balances *(cont'd)*

Note:

(i) In the opinion of the directors, the related party transactions described above were carried out in the ordinary course of business at terms mutually agreed between the Group and the respective related parties.

(ii) The amounts due from fellow subsidiaries are unsecured, interest-free and repayable on demand.

(iii) The amounts due from associates are unsecured, interest-free and not repayable within twelve months.

(iv) The amounts due to ultimate holding company, an intermediate holding company, fellow subsidiaries and associates are unsecured, interest-free and repayable on demand.

The directors consider the carrying amounts of the above balances approximate their fair values.

43. EVENTS AFTER THE BALANCE SHEET DATE

In January 2007, the Company filed a petition to the high court of the Hong Kong Special Administrative Region to seek the court's confirmation of the cancellation of the special capital reserve account of the Company and the reduction of the share premium account of the Company for the purpose of eliminating the accumulated losses of the Company as at 31 October 2006. On 13 February 2007, the court ordered that the cancellation of the special capital reserve account of approximately HK$125,374,000 and the reduction of the share premium account from approximately HK$3,503,362,000 to approximately HK$2,738,934,000 was confirmed.